

Workshop 1

"Will Processed Products Overtake the Fresh Market as the Major Profit Maker?"

Chair: Allen J. Vangelos

Calavo Growers of California, 15561 Redhill Avenue, Tustin, CA 92680-7321, USA

Secretary: Steve Barnhard

Mission Produce, Inc., P.O. Box 2888, Oxnard, CA 93034, USA

In reviewing this subject, we looked at various industry trends to determine a growth pattern to support this scenario.

First, in looking at the food service industry sales and food service purchases over the last five years, we have seen a growth of U.S. \$21.8 billion - from U.S. \$73 billion in 1986 to U.S. \$94.8 billion in 1990. This represents about a 30% growth over the five years, or 6% per year. The food service industry has not had the spectacular growth it had in the early 1980's, and some say it is peaking out.

In reviewing how avocados are used with food service operators, the Food Track study indicated that 69% of the operators use avocados in the fresh form, 17% use them in the frozen or processed form, and about 14% use them both ways in their menu planning.

The fast food/Mexican food concept, although perceived to be a dynamic growth area, really has had a 3% real growth trend over the last four years, 1987 to 1990. This is based on an annual study done by Restaurant and Institutions magazine. The key operators within this segment of the fast food industry are Taco Bell, Del Taco, Taco John's, Taco Time, and Taco Villa. Comparing their real growth from year to year, we again do not see any major or accelerated growth trends.

Examining the trends within this industry in another way, we looked at the ethnic food items ordered by households when eating away from their homes in the years 1988 and 1990. Consumption of Mexican food increased from 55% to 59%. This is a significant increase compared to the other major categories which are Oriental food, Italian food, and pizza.

Looking inside the Mexican food category, we see some products that use guacamole as varying in growth. For instance, the popularity of taco salad from 1988 to 1990 has declined by six percentage points from 41% to 35%. Fajitas, on the other hand - another use for avocado pulp or guacamole - has increased from 24% in 1988 to 28% in 1990. Interesting though is the trend for guacamole. In 1988 it was ordered by 19% of the

respondents and in 1990 only 19.7%, a seven-tenths percent increase. This, obviously, reflects somewhat of a no-growth posture for guacamole. The bulk of the use for processed or frozen avocado pulp-guacamole is in that form.

Examining the avocado market even further, we looked at a study that compared usage from 1985 to 1990. The trends indicate that overall avocado usage is up over this period from about 38% to 45% with fresh avocado usage up from 55% to 60% and frozen avocado usage up from about 10% to 15%. If we look specifically at frozen avocado usage, we can see an increase in the frozen dip usage from about 55% to 60%, but a decline in the avocado pulp and the avocado sauce usage during this same five year period. This could be attributable to the fact that people tend to blend fresh avocado with the pulp and the sauce.

We further determined that there are definitely two markets for avocados. One is a fresh market and the other a processed market. There is some distinction in the user base. For instance, studies indicate that there are people who like guacamole for the spicy flavor and the mouth feel, but do not like fresh avocados because of their perceived blandness. Conversely, we find that there are people who are purists. They want a fresh, sliced avocado only and do not like it altered with spices, mayonnaise, sour cream, etc. These same two distinctions carry forward in both the retail and the food service markets.

In reviewing this overall category, we concluded that the primary use today for processed avocados is still with the Mexican food service industry and, more specifically, the bulk of this use goes through food service outlets and restaurants, be they independent or fast food chains.

In looking at the current major market opportunities for these products, it was agreed that the major markets still primarily follow the Hispanic population in the western and southwestern markets. The central and eastern areas of the United States are underdeveloped as are foreign markets.

The major benefits to a food service user are the price per ounce, or per serving, and the labor cost efficiency in handling product preparation. The portion and quality control available from a processed product are benefits versus the inconsistency found when different people are taught to make the fresh product. All of this impacts the use of this product, however, some would still rather present a fresh product to their users. It was also noted that it is sensitive to price. If the price of fresh avocados is low enough, many operators will opt for the fresh product even though the problems of labor and inconsistency are there.

The consensus was that there is no shortage of processing opportunities around the world. It was also agreed that the need for raw product will never be a problem for processing based on the current trends and uses.

In final summary, the group representing this workshop agreed that the concept

definitely is viable for the industry and upon the following points:

(i) The potential as you look globally, and even in the eastern part of the United States, is still untapped.

(ii) The markets are underdeveloped, but the opportunity to develop them is long term and will require sizeable investment to expand beyond the current usage and volume levels.

(iii) It does help boost fresh prices by taking a certain amount of product off the fresh market, thus providing some what of an umbrella to keep fresh prices perhaps higher than they would be without the benefit of processing. It also provides a home for No. 2 or standard fruit that otherwise may not return as much on the fresh market.

(iv) It was felt that, if it grew too large, it could erode the fresh market by cannibalizing fresh users into the processed part of the business.

Finally, as the group reviewed once again the position - "Will Processed Products Overtake the Fresh Market as the Major Profit Maker?" it was unanimous that this was not likely to occur based on the above facts.